



FIRST THINGS FIRST

Ready for School. Set for Life.

AGENDA ITEM:

Sustainability Model Review

CEO RECOMMENDATION(S):

- Provide FTF staff with guidance on the Board's sentiments on how current revenue projections, and carry forward balances are weighed in relation to expenditures levels and ongoing program sustainability considerations.

DETAIL:

In September of 2010 the Board engaged in a discussion related to how FTF efforts could be managed and sustained over time and in a way that allowed for planning and provided a level of predictability.

Central to this discussion was the assumption that tobacco revenues were a declining revenue stream, that level off in the \$90 to \$100 million range. The basis for the assertion that tobacco represents a declining revenue stream was found in historical state revenue data, original projections established during the campaign to initially pass FTF, and the actual experience of the organization during its first few years of operations.

In this conversation the Board considered the following questions:

1. How should the organizational fund balance be drawn down to mitigate the effects of an erratic fund source? Is the goal to:
 - a. Maximize the number of years fund balance is available?
 - b. Provide an absolutely consistent funding stream for the system until the money is expended?
 - c. Provide an ever increasing budget based on an inflation factor until such point fund balance is exhausted and the Program budget is severely adjusted down so that it now meets revenues?
2. Is there a fund balance threshold which the organization should not fall below?
3. Are there alternatives which will allow funding to remain constant despite declining revenue and fund balance being one-time in nature? For example:
 - a. Grants
 - b. Fundraising
 - c. Revenue generation
 - d. Appropriation
 - e. Identification and the securing of an additional revenue source.

As a result of this discussion, a general model that followed a downward stair step was adopted as the operating paradigm under which planning decisions were made. This model is the first chart included under this agenda item.

Early in FY12 it became evident that revenues were stabilizing. The stabilization combined with the fact that the national and state economic pressures were beginning to recede, was the impetus to engage a partner to create a forecasting tool that would generate a set of revenue projections that would support or refute current assumptions. The key take-away presented from the contractor's data is that it would be reasonable for FTF to assume constant, rather than declining revenues.

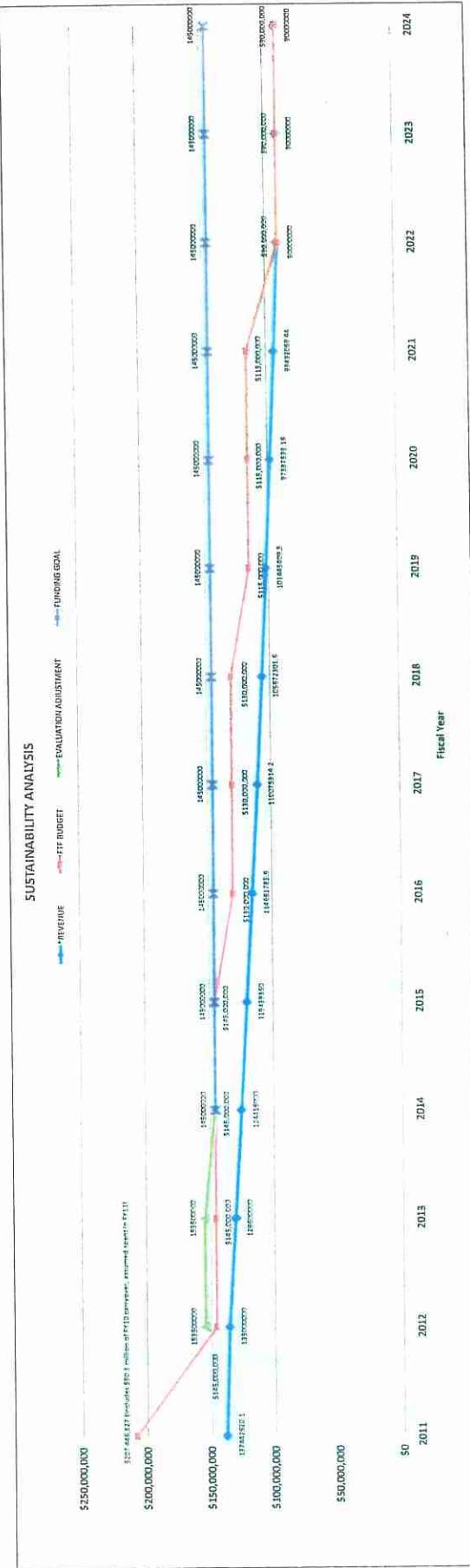
Layered on top of these recent projections is the Board's support for FTF to adjust investment strategy for its pooled cash. These efforts have resulted in significant increases in interest revenues. Even at an average return of 2%, which FTF is very close to achieving already, FTF anticipates it will collect well over \$6 million next year compared to just \$3 million in FY11.

As in the previous discussion, staff has prepared a series of scenarios for the Board to consider, to draw from, and to ask questions about. Specifically there are four charts showing what happens when different revenue levels are assumed and paired with specific spending assumptions:

- Each takes the proposed FY13 administrative spending level and allows it to grow annually by an inflationary factor (ranging from 0.25% to 1.8%) which causes the projected administrative budget to not exceed 10% (always be less than 11% of the total FTF expenditure budget).
- Interest income is always projected at 2% of the pooled cash estimate.
- Regionally held fund balance is spent down over the next four years. This is based on regional planning and funding plans submitted to the board in January 2012.
- Revenues to expenditures comparisons assume perfect spending of the budget.
- Program expenditures do not fall below FY13 levels.
- Budgeted program expenditures are never less than whatever 90% of previous year's tobacco tax and interest revenues.

Even using the "lower boundary" numbers (3rd chart in this set) revenues quickly catch back up to expenditures and fund balance remains relatively high/constant. However, as chart 6 (4th new model) demonstrates even a very modest yet consistent increase (\$15 million a year beginning in FY17) causes fund balance to approach zero by 2025, with the depletion of cash having a compounding effect as interest income is reduced dramatically.

Additionally, all four of the new models raise the questions of if and when additional organizational fund balance should be drawn down to support program spending. Each model assumes, after FY13, no additional draws on organizational fund balance are made to support program spending until the currently held regional fund balances are spent. As such, allocations are tied directly to collections. Only the final model assumes spending will move beyond this base allocation, but does not do so until the regional fund balance is spent.



Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Annual Revenue Shortfall:	\$ 70,004,207	\$ 10,000,000	\$ 15,400,000	\$ 20,586,000	\$ 25,560,640	\$ 15,338,214	\$ 19,924,686	\$ 24,377,698	\$ 25,554,590	\$ 17,612,407	\$ 21,597,911	\$ -	\$ -	\$ -
Admin. Fund Balance:	\$ 67,156,377	\$ 67,156,377	\$ 67,156,377	\$ 67,156,377	\$ 67,156,377	\$ 67,156,377	\$ 67,156,377	\$ 67,156,377	\$ 67,156,377	\$ 67,156,377	\$ 67,156,377	\$ 67,156,377	\$ 67,156,377	\$ 67,156,377
Program Fund Balance *:	\$ 159,025,344	\$ 220,525,344	\$ 220,525,344	\$ 220,525,344	\$ 220,525,344	\$ 220,525,344	\$ 220,525,344	\$ 220,525,344	\$ 220,525,344	\$ 220,525,344	\$ 220,525,344	\$ 220,525,344	\$ 220,525,344	\$ 220,525,344
Ending Fund Balance:	\$ 205,183,721	\$ 187,663,721	\$ 141,393,721	\$ 165,733,721	\$ 117,039,081	\$ 102,300,467	\$ 82,376,181	\$ 62,376,181	\$ 46,499,892	\$ 36,018,483	\$ 26,482,455	\$ 16,373,575	\$ 5,373,575	\$ 5,373,575
Funding Gap:	\$ -	\$ -	\$ -	\$ -	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 15,000,000	\$ 30,000,000	\$ 30,000,000	\$ 30,000,000	\$ 30,000,000	\$ 30,000,000

*Revenue presented is the prior fiscal year's total revenue.

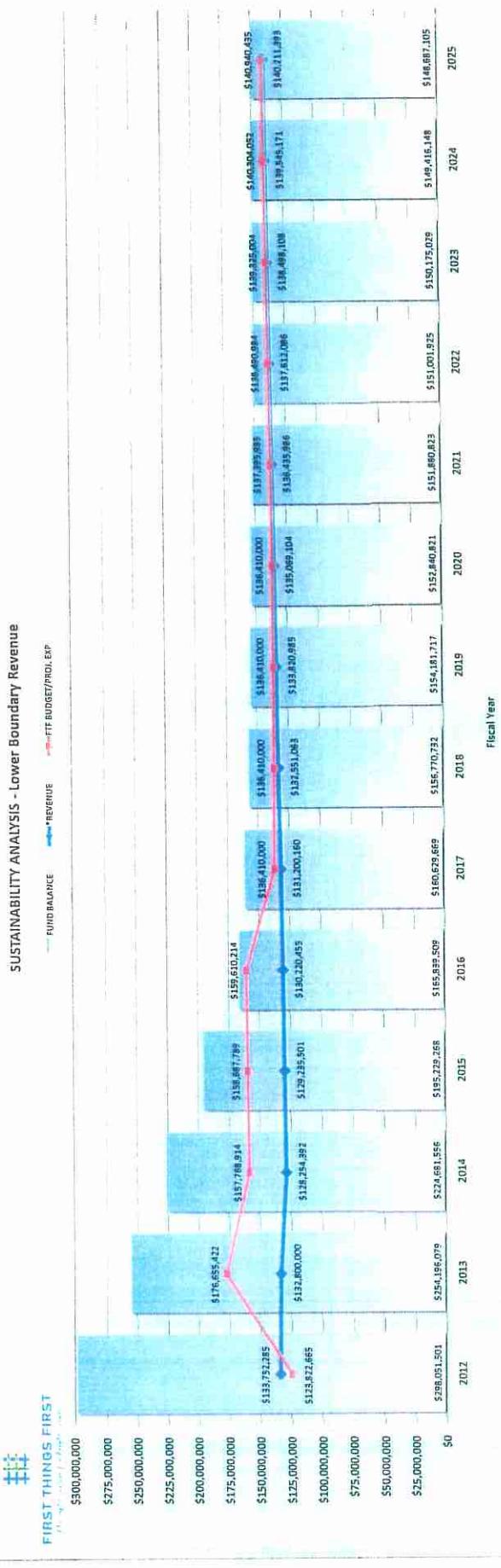
**Includes \$6,500,000 evaluation budget adjustment in FY 2012 & FY 2013.

First Things First Projected Annual Revenue, 2012-2030, with Lower and Upper Boundaries

Financial Year	Lower Boundary	Expected	Upper Boundary
2012	\$120,884,600	\$132,511,300	\$144,149,600
2013	\$122,171,500	\$133,849,000	\$145,572,200
2014	\$123,742,900	\$135,613,400	\$147,525,200
2015	\$125,316,900	\$137,393,700	\$149,422,800
2016	\$126,884,400	\$139,172,900	\$151,475,900
2017	\$128,339,500	\$140,845,300	\$153,457,400
2018	\$129,686,600	\$142,432,100	\$155,203,100
2019	\$130,986,500	\$143,985,800	\$157,161,800
2020	\$132,380,200	\$145,543,300	\$159,135,800
2021	\$133,575,500	\$147,131,500	\$160,950,000
2022	\$134,479,100	\$148,286,800	\$162,295,900
2023	\$135,542,700	\$149,411,400	\$163,660,800
2024	\$136,224,100	\$150,549,400	\$165,182,100
2025	\$137,138,500	\$151,662,100	\$166,452,500
2026	\$138,076,800	\$152,797,400	\$168,175,400
2027	\$138,895,000	\$153,929,200	\$169,519,700
2028	\$139,700,400	\$155,069,000	\$170,916,000
2029	\$140,353,200	\$156,221,300	\$172,510,000
2030	\$141,340,900	\$157,446,000	\$174,159,700

Source: Authors' Calculations

SUSTAINABILITY ANALYSIS - Lower Boundary Revenue



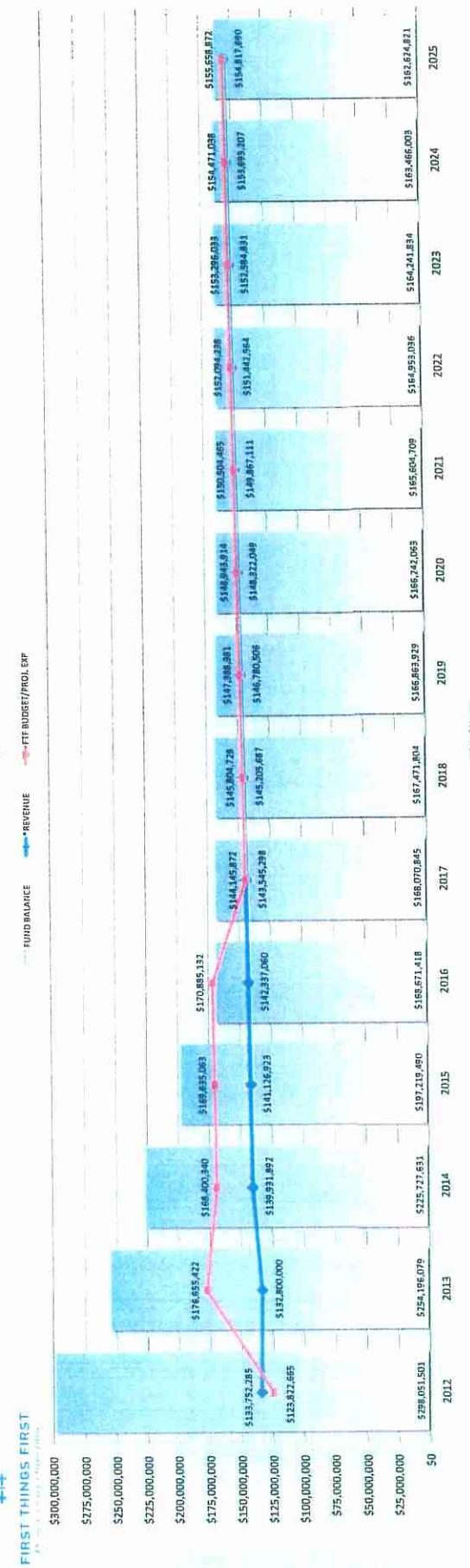
* Revenue presented is the prior fiscal year's total revenue.
 ** FY 2012 & FY 2013 show projected expenditure levels as of 5/22/12. Starting in FY 2014, the analysis assumes full expenditures of agency budgets.
 Administrative budget is increased .25% per year starting FY14.

Fiscal Year	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue*	\$133,752,285	\$132,800,000	\$128,254,392	\$129,235,501	\$131,200,160	\$132,351,063	\$135,820,985	\$136,335,986	\$137,612,086	\$138,498,108	\$139,545,171	\$140,211,393	\$141,940,455	\$143,663,517
Projected Expenditure/Budget**	\$121,822,665	\$120,655,422	\$127,768,214	\$129,610,214	\$136,010,000	\$136,410,000	\$136,410,000	\$136,410,000	\$137,959,985	\$139,375,000	\$140,301,052	\$140,940,455	\$141,940,455	\$142,940,455
Annual Revenue Surplus/(Deficit):	\$11,929,620	(\$1,800,000)	\$1,225,501	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000	\$1,175,000
Admin. Fund Balance:	\$69,927,723	\$68,892,939	\$67,367,807	\$65,904,910	\$64,504,502	\$63,166,088	\$61,326,579	\$59,777,825	\$59,717,556	\$58,757,556	\$57,878,660	\$57,051,760	\$56,292,883	\$55,563,840
Program Fund Balance:	\$126,125,778	\$185,303,100	\$157,313,749	\$129,320,558	\$101,934,987	\$97,463,281	\$94,946,153	\$92,003,892	\$89,123,265	\$85,123,165	\$81,151,925	\$76,151,821	\$71,151,732	\$67,151,623
Ending Fund Balance:	\$298,051,501	\$250,156,079	\$224,681,556	\$195,729,268	\$165,839,509	\$160,629,669	\$156,770,732	\$154,181,717	\$152,440,821	\$151,001,925	\$150,175,029	\$149,349,105	\$148,524,148	\$147,699,105



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A Non-Profit Organization

SUSTAINABILITY ANALYSIS - Expected Revenue



Fiscal Year	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue*	\$ 133,752,285	\$ 132,860,000	\$ 139,931,892	\$ 141,126,923	\$ 142,337,060	\$ 143,545,298	\$ 145,760,567	\$ 146,980,506	\$ 148,222,049	\$ 151,042,566	\$ 152,586,831	\$ 152,695,207	\$ 154,817,690	\$ 154,817,690
Projected Expenditure/Budget**	\$ 123,822,665	\$ 176,655,422	\$ 168,400,340	\$ 169,635,063	\$ 170,885,132	\$ 174,112,673	\$ 174,345,298	\$ 175,806,728	\$ 176,984,565	\$ 179,054,465	\$ 182,194,238	\$ 182,296,033	\$ 184,471,038	\$ 184,471,038
Annual Revenue Surplus/(Shortfall):	\$ 9,929,620	\$ 10,145,922	\$ 10,721,949	\$ 10,810,071	\$ 10,810,071	\$ 10,810,071	\$ 10,810,071	\$ 10,810,071	\$ 10,810,071	\$ 10,810,071	\$ 10,810,071	\$ 10,810,071	\$ 10,810,071	\$ 10,810,071
Admin. Fund Balance:	\$ 59,927,723	\$ 68,892,939	\$ 68,413,882	\$ 67,895,132	\$ 67,336,451	\$ 66,735,878	\$ 66,135,837	\$ 65,528,462	\$ 64,907,096	\$ 64,289,742	\$ 63,618,059	\$ 62,906,867	\$ 62,131,036	\$ 61,289,854
Program Fund Balance:	\$ 228,123,778	\$ 185,303,140	\$ 157,313,749	\$ 129,374,358	\$ 101,334,967	\$ 101,334,967	\$ 101,334,967	\$ 101,334,967	\$ 101,334,967	\$ 101,334,967	\$ 101,334,967	\$ 101,334,967	\$ 101,334,967	\$ 101,334,967
Ending Fund Balance:	\$ 298,051,501	\$ 254,196,079	\$ 225,727,651	\$ 197,219,490	\$ 168,871,418	\$ 166,070,895	\$ 167,471,804	\$ 166,742,063	\$ 166,863,229	\$ 166,960,709	\$ 167,241,834	\$ 167,456,003	\$ 167,624,821	\$ 167,624,821

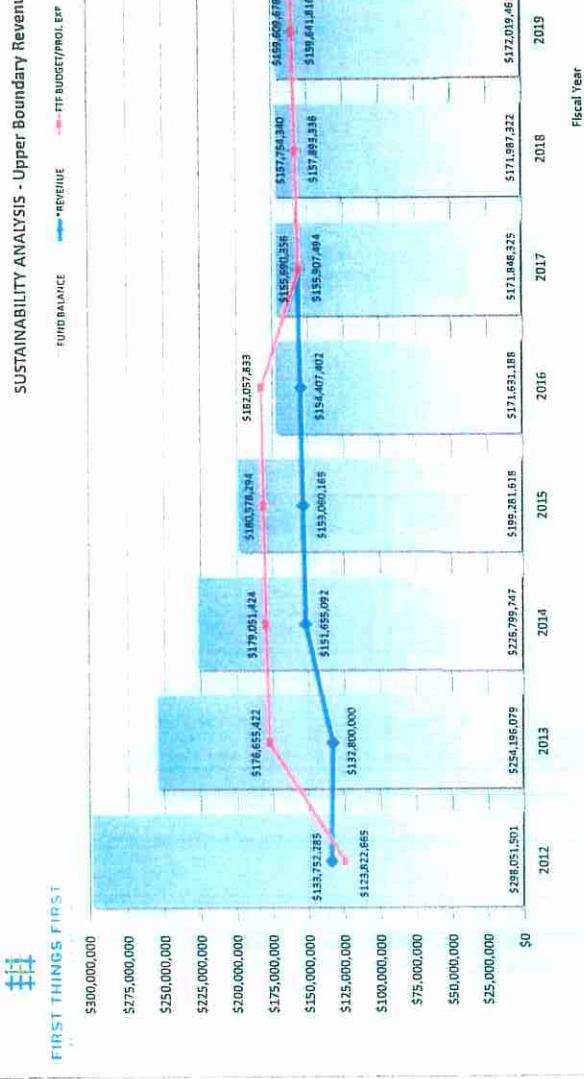
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**FY 2012 & FY 2013 show projected expenditure levels as of 5/22/12. Starting in FY 2014, the analysis assumes full expenditures of agency budgets.

Administrative budget is increased 1.1% per year starting FY14.

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SUSTAINABILITY ANALYSIS - Upper Boundary Revenue



Fiscal Year	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue*	\$ 133,732,205	\$ 132,800,000	\$ 151,055,092	\$ 153,060,165	\$ 154,407,402	\$ 155,907,494	\$ 157,754,340	\$ 159,426,670	\$ 161,150,463	\$ 163,227,345	\$ 165,654,458	\$ 167,163,561	\$ 168,692,078	\$ 169,580,864
Projected Expenditure/Budget**	\$ 123,822,605	\$ 125,655,422	\$ 127,500,000	\$ 129,345,422	\$ 131,205,743	\$ 133,060,166	\$ 135,000,000	\$ 136,940,416	\$ 138,895,159	\$ 140,845,109	\$ 143,805,119	\$ 146,865,119	\$ 149,925,170	\$ 152,980,864
Annual Revenue Surplus/(Shortfall)	\$ 9,939,620	\$ 13,415,124	\$ 25,485,079	\$ 27,261,616	\$ 27,798,747	\$ 28,165,079	\$ 28,361,186	\$ 28,562,325	\$ 28,769,461	\$ 29,976,597	\$ 31,187,737	\$ 31,397,957	\$ 31,609,025	\$ 31,816,767
Administrative Fund Balance:	\$ 225,000,000	\$ 226,793,773	\$ 228,123,778	\$ 229,453,140	\$ 230,782,205	\$ 232,113,245	\$ 233,443,356	\$ 234,773,457	\$ 236,103,557	\$ 237,433,657	\$ 238,763,757	\$ 240,093,857	\$ 241,423,957	\$ 242,753,825
Program Fund Balance:	\$ 225,000,000	\$ 226,793,773	\$ 228,123,778	\$ 229,453,140	\$ 230,782,205	\$ 232,113,245	\$ 233,443,356	\$ 234,773,457	\$ 236,103,557	\$ 237,433,657	\$ 238,763,757	\$ 240,093,857	\$ 241,423,957	\$ 242,753,825
Ending Fund Balance:	\$ 0	\$ 226,793,773	\$ 228,123,778	\$ 229,453,140	\$ 230,782,205	\$ 232,113,245	\$ 233,443,356	\$ 234,773,457	\$ 236,103,557	\$ 237,433,657	\$ 238,763,757	\$ 240,093,857	\$ 241,423,957	\$ 242,753,825

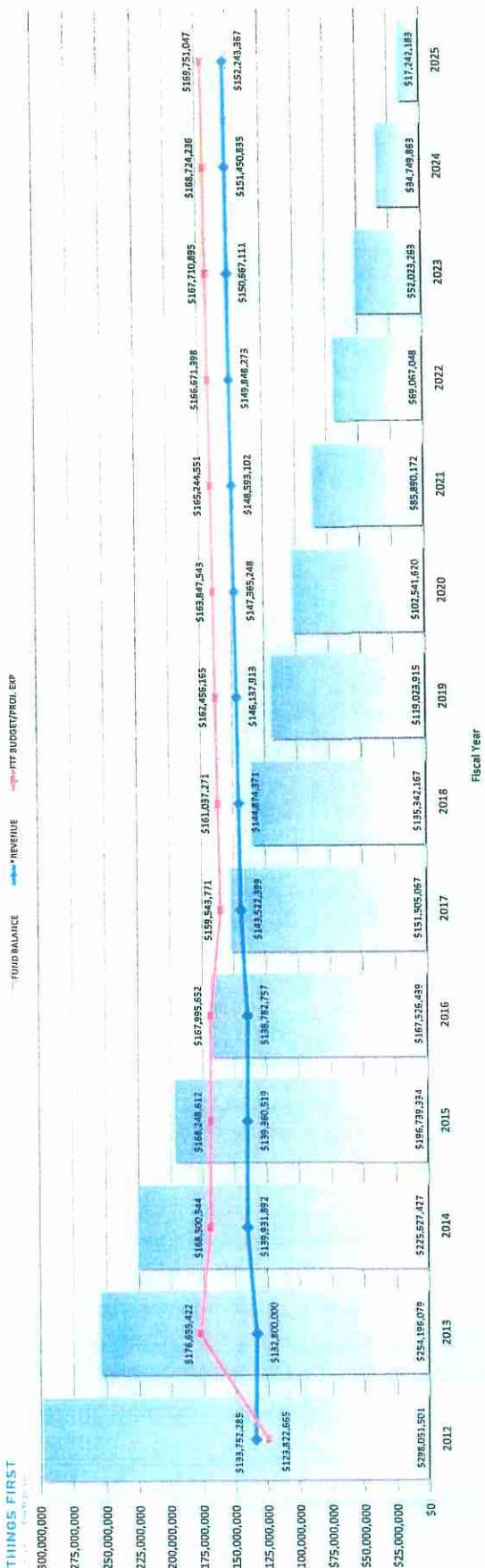
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**FY 2012 & FY 2013 show projected expenditure levels as of 5/22/12. Starting in FY 2014, the analysis assumes full expenditures of agency budgets.

Administrative budget is increased 1.0% per year starting FY 14.



SUSTAINABILITY ANALYSIS - Fund Balance Spend Down Model



Fiscal Year	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenue*	\$133,772,285	\$137,800,000	\$141,822,285	\$145,844,571	\$149,867,771	\$153,890,543	\$157,913,312	\$161,937,771	\$165,961,145	\$166,971,398	\$167,981,273	\$169,981,273	\$171,981,273	\$172,981,273
Projected Expenditure/Budget**	\$132,832,665	\$136,655,422	\$140,478,285	\$144,301,067	\$148,123,848	\$151,946,628	\$155,769,399	\$159,593,102	\$163,424,551	\$165,671,398	\$167,710,895	\$168,774,236	\$169,751,007	\$170,729,236
Annual Revenue Surplus/(Deficit):	\$1,949,620	\$4,144,571	\$6,744,285	\$9,493,000	\$12,257,427	\$14,932,285	\$17,606,771	\$19,279,145	\$19,951,251	\$19,631,125	\$19,303,781	\$18,974,236	\$18,645,007	\$18,314,807
Admin. Fund Balance:	\$298,051,501	\$294,196,079	\$290,341,610	\$286,487,148	\$282,632,686	\$278,778,224	\$274,923,852	\$271,070,477	\$267,216,000	\$263,361,628	\$259,508,256	\$255,655,896	\$251,802,526	\$247,950,151
Program Fund Balance:	\$226,123,778	\$222,165,140	\$218,205,749	\$214,244,353	\$210,284,967	\$206,324,567	\$202,364,967	\$198,404,967	\$194,444,967	\$190,484,967	\$186,524,967	\$182,564,967	\$178,604,967	\$174,644,967
Ending Fund Balance:	\$298,051,501	\$294,196,079	\$290,341,610	\$286,487,148	\$282,632,686	\$278,778,224	\$274,923,852	\$271,070,477	\$267,216,000	\$263,361,628	\$259,508,256	\$255,655,896	\$251,802,526	\$247,950,151

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